

Internal Revenue Service

Department of the Treasury

District
Director

P.O. Box 2508, Cincinnati, OH 45201

Person to Contact:

Telephone Number:

Re: Reply to:

EP/EO
Date: AUG 07 1987

Dear Sir or Madam:

- We have considered your application for recognition of exemption from Federal income tax under the provisions of section 501(c)(6) of the Internal Revenue Code of 1954 and its applicable Income Tax Regulations. Based on the available information, we have determined that you do not qualify for the reasons set forth on Enclosure I.

Consideration was given to whether you qualify for exemption under other subsections of section 501(c) of the Code and we have concluded that you do not.

As your organization has not established exemption from Federal income tax, it will be necessary for you to file an annual income tax return on Form 1041 if you are a trust or Form 1120 if you are a corporation or an unincorporated association.

If you are in agreement with our proposed denial, please sign and return one copy of the enclosed Form 6018, Consent to Proposed Adverse Action.

You have the right to protest this proposed determination if you believe that it is incorrect. To protest, you should submit a written appeal giving the facts, law and other information to support your position as explained in the enclosed Publication 892, "Exempt Organizations: Appeal Procedures for Unagreed Issues". The appeal must be submitted within 30 days from the date of this letter and must be signed by one of your principal officers. You may request a hearing with a member of the office of the Regional Director of Appeals when you file your appeal. If a hearing is requested, you will be contacted to arrange a date for it. The hearing may be held at the Regional Office, or, if you request, at any mutually convenient District Office. If you are to be represented by someone who is not one of your principal officers, he or she must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements as set forth in Section 601.502 of the Statement of Procedural Rules. See Treasury Department Circular No. 230.

If we do not hear from you within the time specified, this will become our final determination.

Sincerely yours,

District Director

Enclosure

██████████ was incorporated on ██████████, for the purpose of operating as a non-profit purchase negotiating organization for ██████████ franchisees. It will provide information to its franchisees on various aspects of purchasing products, equipment, supplies and any other materials used in the operation of ██████████ food service establishments; it will negotiate with suppliers and vendors for volume price agreements; it will manage and distribute foods; and it will promote and maintain member participation in programs it has implemented with selected suppliers and vendors.

The organization receives income from marketing allowances from selected vendors and suppliers based on a percentage of the sales made to its members.

Membership in ██████████ is limited to any person, firm or corporation which holds a franchise holder agreement for ██████████.

Section 501(c)(6) of the Code provides for the exemption from Federal income tax of business leagues, chambers of commerce, real-estate boards, boards of trade or professional football leagues (whether or not administering a pension fund for football players) not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Regulations states that a business league is an association of persons having some common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

Revenue Ruling 68-338 C.B. 1966-2, 226 describes an organization which promotes the interests of a particular retail business. It advises members in the operation of their individual business and sells them supplies and equipment. The organization was held not to qualify for exemption because it performs particular services for its members as distinguished from conducting activities for the benefit of the industry as a whole. The activities also constitute a business of a kind ordinarily carried on for profit even though they are conducted on a cooperative basis and produce only sufficient income to be self-sustaining.

Like the organization described in the above Revenue Ruling, your

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activities are not directed to the improvement of business conditions of the food service industry. You are providing particular services to your franchisees.

In National Muffler Dealers Association, Inc. vs US, 440, US 472 (1979), a trade organization of muffler dealers of a particular brand of muffler was held not to qualify for exemption. Membership is confined to dealers franchised by a particular company. Its principal activity has been to serve as a bargaining agent for its members with the national muffler company. It has negotiated a new form of franchise agreement for its franchisees. In addition, the Association sponsors group insurance programs, holds annual conventions, and publishes a newsletter for members. The Court held that the organization does not meet the line of business requirement within the meaning of section 501(c)(6) of the Code and is not a business league. The Court further stated that a tax exemption is not available to aid one group competing with another group within a particular industry.

The activities of the muffler association are not directed to the improvement of business conditions of one or more lines of business.

You operate similarly to the National Muffler Dealers Association. Your membership is restricted to a particular food service business, ██████████. Your principal activities are negotiating with suppliers and vendors on behalf of your franchisees and providing them information on operating ██████████ franchises.

We have determined that you do not qualify for exemption under section 501(c)(6) of the Code because your activities do not serve to promote the improvement of business conditions of one or more lines of business. In addition, your activities constitute the performance of particular services for your members.